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UNCLAS SECTION 01 OF 02 TEGUCIGALPA 002312

SIPDIS

SENSITIVE

STATE FOR WHA/CEN, WHA/EPSC, EB/CIP, EB/CBA, L/EB
STATE FOR L/EB (LSVAT)
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COMMERCE FOR MSIEGELMAN

E.O. 12958: N/A

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SUBJECT: ACTION REQUEST: LUCENT SEEKS USG CONCURRENCE TO
DONATE TELECOMMS EQUIPMENT

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11. (U) This is an action cable. Please see para 5.

12. (SBU) On October 7, EconChief met with Carlos Aviles, Senior Manager for Lucent in Latin America, and Juan Carlos Galan, New Business Manager for Lucent, to discuss a pending Lucent proposal to donate CDMA-based switching technology to Honduran state telephone monopoly Hondutel. As Aviles and Galan explained, Lucent established a presence in Honduras in 1993 with a contract to install 110,000 lines between the capital Tegucigalpa and the business center San Pedro Sula. That equipment used now-outdated AMPS technology. Following several years of poor relations with the GOH in which Lucent failed to secure additional contracts, Lucent in 2003 won a nine-month contract for upgrade and expansion of 11,000 lines. Their new management team, on-time delivery, and strong customer service on that contract have allowed them to repair relations with the GOH and Hondutel, which Lucent now hopes to leverage into a re-entry into the Honduran market. However, Lucent fears that its future bids could be judged in light of their currently deployed (AMPS based) technology, rather than on their latest, third-generation compatible CDMA technologies.

13. (SBU) To remedy this, Lucent proposes to donate USD five million worth of switching equipment to Hondutel, to be used to upgrade the Tegucigalpa-San Pedro corridor. This gesture would earn good will, while also showcasing Lucent,s latest technology. For its part, Aviles told us, the GOH would have to purchase approximately USD 2 million of additional system equipment (base stations, etc). Similar offers have been made and accepted by Ericsson and Siemens, each of which has already launched GSM-based demonstration projects in more remote regions along the borders with Guatemala, El Salvador, and Nicaragua. Lucent wishes to compete on an equal footing, defend its existing market share, and prevent de facto lockout of CDMA technologies in the Honduran market. Lucent is also positioning itself for December 2005, when Hondutel loses its fixed-line telephone service monopoly.

14. (SBU) Lucent officials are requesting that the USG publicly endorse the donation as transparent and entirely above-board. Lucent emphasizes that there is no quid-pro-quo expressed or implied in the donation (though obviously they hope to position themselves for future sales opportunities). In the interest of full disclosure, Lucent officials told us that they have also submitted a bid for an unrelated October 28 microwave contract worth approximately USD seven million. However, that is a public, competitive bid being managed by UNDP, and therefore its outcome should not be influenced by Lucent,s proposed donation to Hondutel.

15. (SBU) Action request: To initiate the donation process, Lucent has prepared a letter to Hondutel (an informal translation of which appears in para 6) offering the equipment and specifying the terms of the donation. Lucent requests that the U.S. Embassy provide a cover letter endorsing the donation, thereby protecting them somewhat from any potential future allegations of improper behavior. (Note: Lucent is well aware of FCPA constraints and insists its lawyers have fully vetted both the proposal and the draft letter and found them fully compliant. End Note.) Post requests L/EB concurrence that the proposed donation does not violate FCPA, and suggested wording on a brief cover letter to Hondutel endorsing the donation.

16. (SBU) Informal translation of text of Lucent draft:

Dear Mr. Valenzuela:

Understanding Hondutel,s current situation and its need to increase tele-density to support governmental objectives, Lucent Technologies, with the support of the USG and the U.S. Embassy in Honduras, is pleased to announce its desire to

donate to Hondutel communications equipment sufficient to provide CDMA-based fixed wireless telephone service to approximately 11,000 subscribers. This equipment is valued at an estimated USD five million.

The equipment includes:

-- Central switching hardware and software for fixed wireless telephony (5ESS, Access Manager, OMP/FX, FMS)

-- Replacement parts for Flexent Modcell 4.0 Compact OD 3S/1C switches and base stations.

We bring to your attention the professional services, necessary for the proper functioning of the abovementioned equipment being offered, as well as related additional equipment that are required for optimal system function, and to indicate the cost of each.

We consider it our duty to tell you that to reach the zones of social interest that Hondutel considers it necessary to cover, and for obvious reasons the equipment offered above will not be sufficient, whether it be for reasons of technology, economics, or any other reason. If you would like to expand the system under discussion, that expansion can only be accomplished using equipment manufactured exclusively by Lucent Technologies.

Most respectfully, allow us to suggest that one efficient use of the products and services being offered would be to use them to provide telephone service in the Tegucigalpa-San Pedro Sula corridor, where there is already a Lucent Technologies WSS system in place.

If this offer is accepted, we sincerely hope that the use of the donated products, however Hondutel chooses to use them, promote the interests of Honduras, and support reaching the economic, financial, and social goals that undoubtedly will translate into direct benefits for the people of Honduras.

We respectfully request confirmation of your acceptance of this offer, so that we might proceed with the legal formalization of the donation.

(Complimentary close). End text.

PIERCE
Pierce